

Message Text

SECRET

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ACTION SS-15

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S E C R E T SECTION 1 OF 2 PANAMA 0166

FOR TRANSITION TEAM S/CL

E.O. 11652: XGDS
TAGS: PFOR, PINT
SUBJECT: A LOOK AHEAD TO 1977

REFS: A. 76 PANAMA 6516

B. PANAMA 129

SUMMARY: THE TORRIJOS GOVERNMENT, FACED WITH A STAGNANT ECONOMY AND A SERIOUS FISCAL SHORTFALL, IS COUNTING HEAVILY ON A NEW TREATY TO GET IT SAFELY THROUGHT THE YEAR. LABOR, BUSINESS, CONSUMERS AND STUDENTS ALL HAVE THEIR QUARRELS WITH THE GOVERNMENT. IF THE TREATY SHOULD, FOR ANY REASON, NOT MATERIALIZE THIS YEAR, THE LIKELIHOOD OF CIVIL DISTRUBANCE AND GOVERNMENTAL INSTABILITY IS CONSIDERABLE. IF THERE IS A TREATY WHICH IS WIDELY ACCEPTABLE TO THE PANAMANIANIS, IT WILL BE A GREAT TRIUMPH FOR TORRIJOS. THE COUNTRY'S ECONOMIC PROBLEMS ARE TOO SERIOUS TO BE RESOLVED BY THE TREATY ALONE, BUT A TREATY IS NECESSARY TO GIVE THE GOVERNMENT A DECENT CHANCE TO WORK THEM OUT. END SUMMARY.

1. THIS YEAR, TORRIJOS HAS TOLD EVERYONE, WILL BE THE YEAR
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THE GRINGOS RUN OUT OF EXCUSES AND PANAMA RUNS OUT OF PATIENCE. THE STROKE OF MIDNIGHT, DECEMBER 31, 1977, WILL NOT NECESSARILY BE A SIGNAL FOR ALL HELL TO BREAK LOOSE PROVIDED A RATIFIED TREATY SHOULD BE CLEARLY IMMINENT. ON THE OTHER HAND, IF TORRIJOS SHOULD, EVEN EARLY IN THE YEAR, DECIDE THAT AN ACCEPTABLE TREATY IS UNLIKELY OR IF HIS POLITICAL OR ECONOMIC DIFFICULTIES SHOULD BECOME TOO DIFFICULT,

NASTINESS COULD BEGIN BEFORE YEAR'S END. IN OTHER WORDS, TORRIJOS IS SAYING, GIVE ME AT LEAST THE ASSURANCE OF A TREATY THIS YEAR OR EXPECT SOME REAL TROUBLE.

2. TORRIJOS HAS CRIED WOLF BEFORE, BUT THERE IS EVERY LIKELIHOOD THAT HE MEANS IT THIS TIME. HIS ECONOMIC ADVISERS HAVE PERSUADED HIM (CORRECTLY, WE THINK) THAT A REAL WOLF IS AT HIS DOOR: TO WIT, THE COUNTRY'S SERIOUS ECONOMIC AND FINANCIAL SITUATION. BUSINESS INVESTMENT IS DOWN TO A TRICKLE. UNEMPLOYMENT IS HIGH AND NOT GETTING ANY BETTER. THE ECONOMY SUFFERED A PER CAPITA NET GDP DECREASE OF ROUGHLY THREE PERCENT IN 1976, AND EVEN THE OPTIMISTS WITHIN THE GOVERNMENT ARE NOT PREDICTING A SIGNIFICANT UPTURN IN 1977. IT IS BY NO MEANS CERTAIN THAT RECENTLY ANNOUNCED INVESTMENT INCENTIVES AND LABOR CODE CHANGES (REF B) WILL HAVE THE DESIRED EFFECT ON PANAMA'S RELUCTANT INVESTORS. AND THE TAX MEASURES WHICH ACCOMPANIED THEM CAN ONLY FURTHER REDUCE CONSUMPTION.

3. A TAX INCREASE IS HARDLY THE CLASSICAL CURE FOR A RECESSION, BUT THE GOVERNMENT'S FISCAL SITUATION IS SUCH THAT IT HAD LITTLE ALTERNATIVE. THE GOVERNMENT IS RELYING HEAVILY ON COMMERCIAL BANK LOANS TO KEEP ITS OWN INVESTMENT AT CURRENT LEVELS. THE NEW TAXES ARE HENCE IMPORTANT NOT ONLY FOR THE REVENUE THEY WILL BRING IN BUT AS AN EARNEST TO THE BANKS--WHICH ARE LESS SANGUINE ABOUT PANAMA THAN THEY WERE A YEAR OR TWO AGO.

4. THESE ECONOMIC WOES ARE HAVING THEIR IMPACT ON THE POLITICAL
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ENVIRONMENT. THE NEW TAXES ARE GENERALLY REGRESSIVE AND WILL BE UNPOPULAR. THEY WILL DO NOTHING TO REFURBISH THE GOVERNMENT'S IMAGE WITH THE POOR AND MIDDLE CLASSES WHICH HAVE BEEN THE STALWARTS OF THE TORRIJOS GOVERNMENT. THE SAME CAN BE SAID FOR RECENTLY ANNOUNCED UTILITY AND FUEL PRICE INCREASES. MORE SIGNIFICANT IS THE VERY FACT THAT THE CURRENT RECESSION IS TAKING PLACE: THERE IS A NATURAL TENDENCY TO BLAME THE GUYS IN OFFICE. ESPECIALLY IF THEY HAVE BEEN IN OFFICE FOR A LONG TIME. THE POPULAR VIEW HAS IT THAT THE MEN IN THIS GOVERNMENT HAVE GOTTEN FAT AT THE TROUGH, WHILE MUCH OF THE PUBLIC HAS GOTTEN LEANER.

5. THIS IS NOT TO SAY THAT THE POLITICAL SITUATION IS IN CRISIS. IT MAY BE USEFUL TO MAKE A DISTINCTION HERE: THE GOVERNMENT (UNDERLINE) COULD HARDLY BE CALLED POPULAR WITH MOST SECTORS. BUT THE REGIME (UNDERLINE) APPARENTLY STILL HAS CONSIDERABLE POPULAR ACCEPTABILITY. THIS EXTENDS BEYOND BACKING FOR THE CAUDILLO TORRIJOS. IT INCLUDES A REJECTION OF "DEMOCRATIC" GOVERNMENT AS PANAMA

KNEW IT BEFORE 1968--WHICH MANY PANAMANIAN VIEW
AS FRAUDULENT AND A VEHICLE FOR DOMINANCE BY THE OLIGARCHY.
MANY POOR AND MIDDLE-CLASS PEOPLE NOTE THAT THE CURRENT
REGIME HAS A PLACE FOR BLACKS AND MESTIZOS, THE POOR AND THE
UNCONNECTED: IN SHORT, IT HAS A HEART. IF IT IS CORRUPT,
THAT IS TOO BAD, BUT NOT SURPRISING---ALL POLITICAIAANS
AE CROOKED. THERE IS, FINALLY, A STRONG STRAIN OF "BETTER
THE DEVIL YOU KNOW THAN THE ONE YOU DON'T".

6. EVEN SO, THE BEDROCK OF SUPPORT FOR THE REGIME IS,
LITTLE BY LITTLE, ERODING AWAY. THE IMPORTANCE OF 1977
IS THAT THERE ARE VERY REAL AND VERY APPARENT DANGERS WHICH
COULD SERIOUSLY UNBALANCE THE POLITICAL SITUATION HERE.
MOST IMMEDIATE IS THE FISCAL PROBLEM. THE NEW TAX AND
LABOR LAW CHANGES SHOULD IMPROVE THE CHANCES FOR THE COMMERCIAL
BANK LOAN OF MORE THAN \$100 MILLION WHICH THE GOVERNMENT
NEEDS IN THE NEXT FEW MONTHS IN ORDER TO MEET ITS

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OBLIGATIONS.BUT SHOULD THEY FAIL TO OBTAIN THE
REQUIRED LOAN, IT COULD HAVE VERY SERIOUS RESULTS, SINCE
PANAMA HAS NO NATIONAL CURRENCY AND CANNOT TURN TO THE
PRINTING PRESS FOR FISCAL RELIEF.

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S E C R E T SECTION 2 OF 2 PANAMA 0166

FOR TRANSITION TEAM S/CL

E.O. 11652: XGDS

7. THE ECONOMIC (AS DISTINCT FRO FISCAL) SITUATION ALSO CONTAINS SEEDS OF POLITICAL DISCONTENT WHICH BEGAN TO GERMINATE SEVERAL MONTHS AGO. THERE IS LITTLE VISIBLE DANGER OF AN UNCONTROLLABLE REVOLT OF THE MASSES IN DIRECT RACTION TO THE HIGH LEVEL OF UNEMPLOYMENT AND THE DECREASED PURCHASING POWER OF THOSE WHO HAVE JOBS. BUT THIS QUIESCENCE IS TENUOUS. THE PROPER CATALYST COULD LEAD TO A RAPID DETERIORATION OF POLITICAL STABILITY.

8. FINALLY, THERE IS THE TREATY. TORRIJOS IS BANKING HEAVILY ON IT TO CREATE A PSYCHOLOGICAL CLIMATE CONDUCIVE TO PRIVATE INVESTMENT, TO PROVIDE THE BASIS FOR NEW INVESTMENT AND GROWTH IN THE PRESENT CANAL ZONE, AND TO DIVERT PANAMANIAN'S ATTENTION FROM THEIR PERSONAL POCKETBOOK PROBLEMS.

9. TORRIJOS ALSO WOULD OBVIOUSLY EXPECT TO MAKE POLITICAL CAPITAL OUT OF CONCLUDING A NEW TREATY. THE RESOLUTION OF THE TREATY PROBLEM, WHICH HAS BEEN ALMOST SYNONYMOUS WITH PANAMANIAN HISTORY, WOULD BE A GREAT POLITICAL TRIUMPH FOR TORRIJOS. THE ENSUING REACTION WOULD SUBMERGE ECONOMIC
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PROBLEMS IN A WAVE OF EUPHORIA (WHICH MIGHT BE FAIRLY SHORT-LIVED). PANAMA'S NEGOTIATORS NOW APPEAR PREPARED TO RECOMMEND SOME SIGNIFICANT COMPROMISES TO TORRIJOS IN ORDER TO GET A TREATY MEETING PANAMA'S CARDINAL REQUIREMENTS (WHICH, IN OUR VIEW, INCLUDE A TERMINATION DATE NO LATER THAN 2000). THIS READINESS TO ENDORSE COMPROMISE IS OBVIOUSLY ADVANTAGEOUS TO US. BUT PUSHING OUR ADVANTAGE TOO FAR COULD CAUSE TORRIJOS--WHO HAS A HIGH CAPACITY FOR WHAT SEEMS TO US IRRATIONAL, PARTICULARLY WHEN HE IS UNDER PRESSURE--TO DECIDE WE WERE NOT NEGOTIATING IN GOOD FAITH. ANOTHER DANGER IN PUSHING TOO FAR IS THAT, EVEN IF TORRIJOS SHOULD FEEL COMPELLED TO ACCEPT A TREATY EFFECTIVELY DICTATED BY US, IT MIGHT NOT OUTLAST HIS GOVERNMENT. ONLY A TREATY WHICH IS WIDELY VIEWED HERE AS FAIR IS LIKELY TO LAST UNTIL ITS TERMINATION DATE.

10. THE POLITICAL PICTURE OF PANAMA AS 1977 GETS UNDERWAY, IS NOT PRETTY ONE: MANY OF THE PEOPLE ARE AWARE OF THEIR WORSENING PERSONAL FORTUNES. ORGANIZED LABOR IS SURVEYING THE DAMAGE DONE TO ITS "CONQUESTS" BY RECENT GOVERNMENT ACTIONS. BUSINESS IS STILL SMARTING FROM THE CONFRONTATION OF A YEAR AGO, SUSPICIOUS OF ANY GOVERNMENT IT DOES NOT DOMINATE, AND IN MOST CASES UNABLE TO FIND ATTRACTIVE OUTLETS FOR INVESTMENT--IF INDEED IT WERE INCLINED TO INVEST. STUDENTS--OR AT LEAST POLITICALLY ACTIVE STUDENTS--ARE MORE THAN A LITTLE ALIENATED BY A GOVERNMENT WHICH THEY SEE AS

SHIFTING TO THE RIGHT.

11. UNDER THESE CIRCUMSTANCES IT IS IMPERATIVE FOR TORRIJOS TO RETAIN THE LYALTY OF THE NATIONAL GUARD. THIS INDISPENSABLE BUTTRESS OF THE GOVERNMENT APPEARS AS FIRM AS EVER. BUT WE BELIEVE CRACKS WOOULD BEGIN TO APPEAR IN THE GUARD IF THERE SHOULD BE A PROLONGED AND SERIOUS (I.E., BLOODY) CONFRONTATION WITH STUDENTS, LABOR OR OTHERS BECAUSE OF GOVERNMENT POLICIES OR DETERIORATING ECONOMIC OR FINANCIAL CONDITIONS.

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12. THEREFORE, 1977, PROMISES TO BE THE MOST CRITICAL YEAR PANAMA HAS FACED IN MORE THAN A DECADE. THERE COULD BE A FISCAL CRISIS IN THE FIRST HALF OF THE YEAR IF THE COMMERCIAL BANKS ARE NOT SUFFICIENTLY FORTHCOMING. EVEN IF THE BANKS COME THROUGH HANDSOMELY, THE GOVERNMENT WILL PROBABLY BE FACED WITH FURTHER BELT-TIGHTENING IN LATE 1977 OR IN 1978, PLUS THE NEED FOR MORE LOANS. IN APRIL OF THIS YEAR THE SCHOOLS WILL REOPEN, AND THE POSSIBILITY OF STUDENT HARASSMENT OF THE GOVERNMENT WILL INCREASE THEREAFTER.

13. FAILURE TO OBTAIN A TREATY IN 1977, FOR WHATEVER REASON, WILL PROBABLY LEAD TO VIOLENCE. BECAUSE OF HIS OTHER PROBLEMS, TORRIJOS MIGHT TRY TO LIMIT THAT VIOLENCE, BUT WE CANNOT COUNT ON IT. IN FACT HE MIGHT EVEN INSTIGATE VIOLENCE AGAINST THE ZONE, THE EMBASSY AND OTHER U.S. TARGETS. THE DIFFICULTIES OF RUNNING THE CANAL IN A HOSTILE CLIMATE MIGHT WELL BE GREATER THIS TIME THAN THEY WERE IN 1964. AND A VIOLENT EPISODE WOULD MARKEDLY REDUCE OUR CHANCES OF REACHING A MUTUALLY ACCEPTABLE AGREEMENT THEREAFTER.

JORDEN

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